

Department of Social and Health Services

DP Code/Title: PL-WB HIPAA Standard Transactions

Program Level - 040 Div of Developmental Disab

Budget Period: 2003-05 Version: 11 2003-05 Agency Request Budget

Recommendation Summary Text:

This package requests funding to implement the first Code of Federal Regulation (CFR) under administrative simplification: Standards for Electronic Transactions to comply with the Health Insurance Accountability and Portability Act (HIPAA).

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Program 040			
001-1 General Fund - Basic Account-State	44,000	44,000	88,000
001-C General Fund - Basic Account-DSHS Medicaid Federa	32,000	32,000	64,000
Total Cost	76,000	76,000	152,000

Staffing

	<u>FY 1</u>	<u>FY 2</u>	<u>Annual Avg</u>
Program 040 FTEs	0.5	0.5	0.5

Package Description:

HIPAA was signed into law August 1996. This reform covers health care fraud and abuse prevention, medical liability reform, and administrative simplifications. Administrative Simplification is being implemented in three rules. This package requests funding to be in compliance with rule one, standard electronic transactions and code sets by the implementation date of October 16, 2003.

Under this rule, all health care organizations (health plans, health care providers, and health care clearing houses) must standardize electronic transactions between organizations. Under this rule, the Department of Social and Health Services (DSHS) functions as both a health plan and a health care provider (Western State Hospital, Eastern State Hospital, and Child Study and Treatment Center).

The transactions named in this rule affect health care eligibility inquiry, enrollment, referrals, claims, payments, remittance advice, and claim status inquiry activities. DSHS performs all of these transactions in the day-to-day business. After October 16, 2003, all electronic transactions covered by the rule must be conducted in a standard fashion using new standard formats and code sets. These code sets will be regularly updated.

The intent of this rule is to increase the efficiency of processing health care financial transactions. All health care organizations, both public and private sector, are required to comply.

Narrative Justification and Impact Statement

How contributes to strategic plan:

This decision package meets the agency balanced scorecard goal of integrating and coordinating information systems.

Performance Measure Detail

Goal:

Incremental Changes
FY 1 **FY 2**

Reason for change:

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Compliance is a federal mandate. Inability to comply with this act will create substantial barriers in conducting the day-to-day business functions with medical providers statewide.

Impact on clients and services:

The impact of change on clients and services is significant:

Over 920,000 Washington residents rely on state and federal medical assistance programs administered by DSHS.

Over 45,000 medical providers serve DSHS clients.

Over 46 million medical claims are processed each biennium by DSHS.

DSHS spends over \$6 billion dollars per biennium on medical services.

The department must be able to accept and process HIPAA compliant electronic transactions by October 16, 2003. Failure to do so could interrupt the delivery of medical services to clients throughout Washington.

Impact on other state programs:

This HIPAA rule will affect all administrations across the department. Likewise, many health care organizations that interface with these organizations (such as the Regional Support Networks, Local Health Districts, County Health Departments, Indian Tribes, Area Agencies on Aging, and similar organizations) will be affected also.

The affected organizations must alter their business models, operational procedures, and information systems to operate in a synchronized HIPAA compliant fashion, wherever standard electronic transactions occur.

Relationship to capital budget:

Not applicable

Required changes to existing RCW, WAC, contract, or plan:

At this time it appears that no legislative changes to the Revised Code of Washington will be needed to implement HIPAA. However, some Washington Administrative Codes (WACs) may require modifications; explicit WAC changes have not yet been identified. All provider contracts, agreements, and billing instructions will need to be revised to address HIPAA requirements. Contract changes will be accomplished through addenda, amendments, or renegotiation. In some situations, new contracts will be negotiated congruent with current agency contracting cycles.

Alternatives explored by agency:

DSHS is taking a minimalist approach to HIPAA compliance using an enterprise model. That means making as few changes as possible in both our information systems and business models to achieve HIPAA compliance across the enterprise.

Current information systems will be modified (in lieu of replacement) to leverage limited resources, control scope, and manage risk. The development of new applications will occur on a very limited basis. Whenever possible, DSHS intends to use existing state resources and secure contractors only if capacity or expertise is not available. The department is focused on limiting risk from a technology standpoint by using technology, hardware, tools, and approaches that are proven at the industry level. Given the constraints of the budget, this is the only viable approach for the department.

Budget impacts in future biennia:

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HIPAA will impact current and future biennial expenditures for DSHS. Routine changes to this federal rule are anticipated. Initial and ongoing compliance will require changes in both DSHS business practices and information systems. The frequency and extent to which changes occur at the federal level will impact costs in future biennia.

The department is currently exploring a strategy to secure federal financial participation for the operation of systems that interface with or are related to the Medicaid Management Information System (MMIS), Washington State's designated Medicaid claims processing system. If the department is successful, more federal funding could be secured and less state funds would be needed. Otherwise, state funds will be the only source of revenue to secure initial and long-term HIPAA compliance outside the Medical Assistance Administration, which has responsibility for operation of the MMIS.

Distinction between one-time and ongoing costs:

One-time costs include expenses associated with significant changes to business processes and information systems to realign with HIPAA requirements and achieve compliance by the federal deadline. Ongoing costs include recurring expenditures associated with continued compliance after the federal deadline.

Effects of non-funding:

If funding is not provided, the department may be incapable of meeting its obligation as a health plan, including timely payment to health care providers. If providers are not paid in a timely fashion, over 920,000 clients statewide may not receive timely medical services. Thousands of businesses across the state would be impacted since DSHS spends over \$6 billion dollars per biennium on medical services. Failure to comply jeopardizes Medicaid funding and potentially carries financial sanctions on a per-transaction basis.

Expenditure Calculations and Assumptions:

Assumptions for this decision package include the following:

The budget estimates represented in this request are based on point-in-time information from the federal Department of Health and Human Services (DHHS) concerning the rule. This rule may be amended and transaction code sets will be regularly updated at the federal level. Any rule changes and code set updates will require additional analysis to determine impacts and related business and system changes.

The DHHS plans to release a security rule in Fiscal Year 2003. The security rule will require additional analysis in the context of work that has already been completed.

Estimates for personnel, contracts, hardware/software, testing, training, and publications are based on current market conditions/prices.

Future staffing levels in DSHS are unknown. Our approach to remediation is based on current staffing levels in each program area.

The planned approach is structured to meet federal deadlines. If adequate funding is not secured, meeting deadlines may not be feasible.

Each administration within DSHS has completed an in-depth assessment to pin-point HIPAA impacts, and solutions were developed using an enterprise approach.

See attachment - AW PL WB HIPAA Standard Transactions.xls

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<u>Object Detail</u>	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Program 040 Objects			
A Salaries And Wages	31,000	31,000	62,000
B Employee Benefits	7,000	7,000	14,000
C Personal Service Contracts	19,000	19,000	38,000
E Goods And Services	17,000	17,000	34,000
G Travel	2,000	2,000	4,000
Total Objects	76,000	76,000	152,000

DSHS Source Code Detail

Program 040	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State			
<u>Sources</u> <u>Title</u>			
0011 General Fund State	44,000	44,000	88,000
<i>Total for Fund 001-1</i>	44,000	44,000	88,000
Fund 001-C, General Fund - Basic Account-DSHS Medicaid Federa			
<u>Sources</u> <u>Title</u>			
19UL Title XIX Admin (50%)	32,000	32,000	64,000
<i>Total for Fund 001-C</i>	32,000	32,000	64,000
Total Program 040	76,000	76,000	152,000